

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

REPORT OF THE COMMISSION STAFF

DOCKET NO. 2004-90-W/S

TOTAL ENVIRONMENTAL SOLUTIONS, INC.

REPORT OF THE AUDIT DEPARTMENT
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2004-90-W/S

TOTAL ENVIRONMENTAL SOLUTIONS, INC.

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REPORT OF THE AUDIT DEPARTMENT
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2004-90-W/S

TOTAL ENVIRONMENTAL SOLUTIONS, INC.

SYNOPSIS

Amount of Increase Requested

Combined

Per Company-----	\$540,065
Per Staff-----	\$538,490 *
Percentage Increase – Per Staff-----	215.45%*

Water

Per Company-----	\$319,508
Per Staff-----	\$318,662*
Percentage Increase – Per Staff-----	300.74% *

Sewer

Per Company-----	\$220,557
Per Staff-----	\$219,828 *
Percentage Increase – Per Staff-----	152.67% *

Operating Margin

Combined

Per Books-----	(59.61%)
As Adjusted-----	(53.13%)
After Proposed Increase-----	31.71%

Water

Per Books-----	(151.36%)
As Adjusted-----	(116.82%)
After Proposed Increase-----	27.89%

Sewer

Per Books-----	(7.77%)
As Adjusted-----	(5.46%)
After Proposed Increase-----	36.19%

***These figures were computed by the Utilities Department.**

REPORT OF AUDIT DEPARTMENT
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2004-90-W/S
TOTAL ENVIRONMENTAL SOLUTIONS, INC.

ANALYSIS

The Audit Department Staff has made a review of the application of Total Environmental Solutions, Inc., (hereinafter referred to as "the Company" or "TESI") along with certain of the Company's accounting records, relative to the Company's application for authority to increase certain rates and charges as shown in Docket No. 2004-90-W/S.

The Audit Department respectfully submits the results of its review as follows:

1. The Company filed an application on March 26, 2004 for approval of rates and charges for water and sewerage services provided to its residential and commercial customers located in Westminster, Oconee County, South Carolina.
2. This matter is set for public hearing on Wednesday, August 04, 2004 at 10:30 a.m.
3. The Company's principal place of business is 1824 Ryder Drive, Baton Rouge, Louisiana, 70808.
4. The Company's application utilizes a December 31, 2002 test period. The Company is requesting monthly water rates of \$62.55 for residential and RV customers, \$99.35 for commercial customers and \$62.55 for a condominium unit and monthly sewer rates of \$55.66 for residential and RV customers, \$67.46 for commercial customers and \$55.66 for a condominium unit.

The following is a summary of the Company's proceedings before this Commission:

<u>Date of Order</u>	<u>Effective Date</u>	<u>Docket Number</u>	<u>Amount Requested</u>	<u>Amount Granted</u>	<u>Operating Margin</u>	<u>Description</u>
07/20/77	07/20/77	77-120-W/S	N/A	N/A	N/A	Rates Established
07/25/94	07/25/94	93-670-W/S	\$142,044	\$132,000	3.86%	Approval of Rates
10/10/00	10/10/00	2000-441-W/S	N/A	N/A	N/A	Approval of Transfer

The Audit Department Staff's exhibits relative to the Company's proposed increase are as follows:

**AUDIT EXHIBIT AC – OPERATING EXPERIENCE AND OPERATING MARGIN -
COMBINED**

Shown in this exhibit is the Company's combined water and sewer operations for the twelve months ended December 31, 2002, with respect to Operating Experience and Operating Margin. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of the Company's test year operations.

Staff verified the per book balances to the Company's books and records. The book figures reflect that the Company's Operating Revenues totaled \$211,044. Total Operating Expenses amounted to \$336,843 resulting in Net Operating Income (Loss) of (\$125,799). The Staff did not include Customer Growth since 2003 year-end customers were used to annualize revenues. Using Total Income (Loss) for Return of (\$125,799) and Operating Revenues of \$211,044, Staff computed a per book Operating Margin of (59.61%). The net effect of Accounting and Pro Forma Adjustments increased Total Income (Loss) for Return from (\$125,799) to (\$134,384), producing an Operating Margin of (53.13%).

The Company has requested an increase in rates which would produce additional gross annual revenues of \$538,490 for combined water and sewer operations based on information supplied by the Utilities Department.

After the proposed increase, Total Operating Revenues amounted to \$791,414 for water and sewer operations and Total Operating Expenses amounted to \$540,441 which produced Net Operating Income for Return of \$250,973. Total Income for Return of \$250,973 and Total Operating Revenues of \$791,414 produced an Operating Margin of 31.71% for water and sewer operations. The Staff did not include Interest Expense for computing the Operating Margin since the Company had a negative rate base.

AUDIT EXHIBIT AW : OPERATING EXPERIENCE AND OPERATING MARGIN -
WATER

Shown in this exhibit is the Company's water operations for the twelve months ended December 31, 2002, with respect to Operating Experience and Operating Margin. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of the Company's test year operations.

Staff verified the per book balances to the Company's books and records. The book figures reflect that the Company's Operating Revenues totaled \$76,194. Total Operating Expenses amounted to \$191,518 resulting in Net Operating Income (Loss) of (\$115,324). The Staff did not include Customer Growth since 2003 year-end customers were used to annualize revenues. Using Total Income (Loss) for Return of (\$115,324) and Operating Revenues of \$76,194, Staff computed a per book Operating Margin of (151.36%). The net effect of Accounting and Pro Forma Adjustments increased Total Income (Loss) for Return from (\$115,324) to (\$126,480), producing an Operating Margin of (116.82%).

The Company has requested an increase in rates which would produce additional gross annual revenues of \$318,662 for water operations based on information supplied by the Utilities Department.

After the proposed increase, Total Operating Revenues amounted to \$426,929 and Total

Operating Expenses amounted to \$307,852, which produced Net Operating Income for Return of \$119,077. Total Income for Return of \$119,077 and Total Operating Revenues of \$426,929 produced an Operating Margin of 27.89% for water operations. The Staff did not include Interest Expense for computing the Operating Margin since the Company had a negative rate base.

AUDIT EXHIBIT AS : OPERATING EXPERIENCE AND OPERATING MARGIN-SEWER

Shown in this exhibit are the Company's sewer operations for the twelve months ended December 31, 2002, with respect to Operating Experience and Operating Margin. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of the Company's test year operations.

Staff verified the per book balances to the Company's books and records. The book figures reflect that the Company's Operating Revenues totaled \$134,850. Total Operating Expenses amounted to \$145,325 resulting in Net Operating Income (Loss) of (\$10,475). The Staff did not include Customer Growth since 2003 year-end customers were used to annualize revenues. Using Total Income (Loss) for Return of (\$10,475) and Operating Revenues of \$134,850, Staff computed a per book Operating Margin of (7.77%). The net effect of Accounting and Pro Forma Adjustments decreased Total Income (Loss) for Return from (\$10,475) to (\$7,904), producing an Operating Margin of (5.46%).

The Company has requested an increase in rates which would produce additional gross annual revenues of \$219,828 for sewer operations based on information supplied by the Utilities Department.

After the proposed increase, Total Sewer Operating Revenues amounted to \$364,485 and Total Operating Expenses amounted to \$232,589, which produced Net Operating Income for Return of \$131,896. Total Income for Return of \$131,896 and Total Operating Revenues of \$364,485 produced an Operating Margin of 36.19% for the Company's sewer operations. The Staff did not include Interest

Expense for computing the Operating Margin since the Company had a negative rate base.

AUDIT EXHIBIT A-1: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS

Shown in this exhibit are the details of each accounting and pro forma adjustment necessary to correct or normalize the Company's water and sewer operations and to reflect the proposed increase. For comparative purposes, Company and Staff adjustments are both presented in this exhibit.

AUDIT EXHIBIT A-2: COMPUTATION OF INCOME TAXES

Shown in this exhibit are the computations of state and federal income taxes. Staff used a state income tax rate of 5% and a federal income tax rate of 34% in its computations.

AUDIT EXHIBIT A-3: INCOME STATEMENT FOR THE TEST YEAR ENDED DECEMBER 31, 2002

The Company's Income Statement for the test year ending December 31, 2002 is reflected in this exhibit. Staff verified all balances contained in this statement to the Company's books and records.

AUDIT EXHIBIT A-4: BALANCE SHEET – AS OF DECEMBER 31, 2002

Shown in this exhibit is the Balance Sheet of the Company as of the end of the test year. The Balance Sheet was a part of the Company's audited financial statements showing the figures by Division (State).

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN
TEST YEAR ENDED DECEMBER 31, 2002
COMBINED

Description	(1) Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenue:</u>					
Service Revenue-Water	67,964	37,994 (1)	105,958	318,662 (8)	424,620
Service Revenue-Sewer	131,278	12,707 (1)	143,985	219,828 (8)	363,813
Miscellaneous Income	11,802	(8,821) (2)	2,981	0	2,981
<u>Total Operating Revenues</u>	211,044	41,880	252,924	538,490	791,414
Operating and Maintenance Expenses	195,755	(43,832) (3)	151,923	0	151,923
General and Administrative Expenses	126,802	99,628 (4)	226,430	0	226,430
Depreciation & Amortization Expenses	5,821	(5,821) (5)	0	0	0
Taxes Other Than Income	8,465	490 (6)	8,955	3,829 (9)	12,784
Income Taxes	0	0	0	149,304 (10)	149,304
Interest Expense	0	0 (7)	0	0	0
<u>Total Operating Expenses</u>	336,843	50,465	387,308	153,133	540,441
<u>Net Operating Income (Loss)</u>	(125,799)	(8,585)	(134,384)	385,357	250,973
Customer Growth (Note 1)	0	0	0	0	0
<u>Total Income (Loss) For Return</u>	(125,799)	(8,585)	(134,384)	385,357	250,973
<u>Operating Margin After Interest Exp.</u>	<u>-59.61%</u>		<u>-53.13%</u>		<u>31.71%</u>
<u>Interest Expense for Oper. Margin</u>	<u>0</u>		<u>0</u>		<u>0</u>

Note 1 - The Staff did not include Customer Growth since 2003 year-end customers were used to annualize revenues.

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN
TEST YEAR ENDED DECEMBER 31, 2002
WATER

Description	(1) Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenue:</u>					
Service Revenue	67,964	37,994 (1)	105,958	318,662 (8)	424,620
Miscellaneous Income	8,230	(5,921) (2)	2,309	0	2,309
<u>Total Operating Revenues</u>	76,194	32,073	108,267	318,662	426,929
Operating and Maintenance Expenses	110,772	(2,405) (3)	108,367	0	108,367
General and Administrative Expenses	71,746	52,519 (4)	124,265	0	124,265
Depreciation & Amortization Expenses	4,226	(4,226) (5)	0	0	0
Taxes Other Than Income	4,774	(2,659) (6)	2,115	2,266 (9)	4,381
Income Taxes	0	0	0	70,839 (10)	70,839
Interest Expense	0	0 (7)	0	0	0
<u>Total Operating Expenses</u>	191,518	43,229	234,747	73,105	307,852
<u>Net Operating Income (Loss)</u>	(115,324)	(11,156)	(126,480)	245,557	119,077
Customer Growth (Note 1)	0	0	0	0	0
<u>Total Income (Loss) For Return</u>	(115,324)	(11,156)	(126,480)	245,557	119,077
<u>Operating Margin After Int. Exp.</u>	-151.36%		-116.82%		27.89%
<u>Interest Expense for Oper. Margin</u>	0		0		0

Note 1 - The Staff did not include Customer Growth since 2003 year-end customers were used to annualize revenues.

AUDIT EXHIBIT AS

**TOTAL ENVIRONMENTAL SOLUTIONS, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN
TEST YEAR ENDED DECEMBER 31, 2002
SEWER**

Description	(1) Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenue:</u>					
Service Revenue	131,278	12,707 (1)	143,985	219,828 (8)	363,813
Miscellaneous Income	3,572	(2,900) (2)	672	0	672
<u>Total Operating Revenues</u>	134,850	9,807	144,657	219,828	364,485
Operating and Maintenance Expenses	84,983	(41,427) (3)	43,556	0	43,556
General and Administrative Expenses	55,056	47,109 (4)	102,165	0	102,165
Depreciation & Amortization Expenses	1,595	(1,595) (5)	0	0	0
Taxes Other Than Income	3,691	3,149 (6)	6,840	1,563 (9)	8,403
Income Taxes	0	0	0	78,465 (10)	78,465
Interest Expense	0	0 (7)	0	0	0
<u>Total Operating Expenses</u>	145,325	7,236	152,561	80,028	232,589
<u>Net Operating Income (Loss)</u>	(10,475)	2,571	(7,904)	139,800	131,896
Customer Growth (Note 1)	0	0	0	0	0
<u>Total Income (Loss) For Return</u>	(10,475)	2,571	(7,904)	139,800	131,896
<u>Operating Margin After Int. Exp.</u>	<u>-7.77%</u>		<u>-5.46%</u>		<u>36.19%</u>
<u>Interest Expense for Oper. Margin</u>	<u>0</u>		<u>0</u>		<u>0</u>

Note 1 - The Staff did not include Customer Growth since 2003 year-end customers were used to annualize revenues.

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
1 OF 11

Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$
1.	The Company proposes to reflect revenues based on a bill frequency analysis using present rates. The Utilities Staff proposes to adjust revenues using the number of customers at December 31, 2003 and present rates. (U)							
	Per Staff - Combined	50,701						
	Per Staff - Water	37,994						
	Per Staff - Sewer	12,707						
	Per Company - Combined	27,354						
	Per Company - Water	27,890						
	Per Company - Sewer	(536)						
2.	The Company proposes to reflect revenues for customers gained during 2003. The Utilities Staff did not make a separate adjustment since it annualized revenues using 2003 year-end customers. No Customer Growth adjustment is needed since revenues are annualized based on 2003 year-end customers. (U)							
	Per Staff - Combined	0						
	Per Staff - Water	0						
	Per Staff - Sewer	0						
	Per Company - Combined	6,898						
	Per Company - Water	2,729						
	Per Company - Sewer	4,169						

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
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Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$
3.	The Company proposes to reflect revenues for customers previously not being billed. The Utilities Department Staff did not make a separate adjustment since it annualized revenues using 2003 year-end customers, which includes these customers. (U)							
	Per Staff - Combined	0						
	Per Staff - Water	0						
	Per Staff - Sewer	0						
	Per Company - Combined	14,874						
	Per Company - Water	6,529						
	Per Company - Sewer	8,345						
4.	The Company proposes to reflect additional revenues for new taps. The Staff proposes to remove tap fees from operating revenues. For ratemaking purposes, these fees are considered contributions in aid of construction and are a deduction from the Company's Rate Base. (U & A)							
	Per Staff - Combined		(5,600)					
	Per Staff - Water		(2,700)					
	Per Staff - Sewer		(2,900)					
	Per Company - Combined		2,200					
	Per Company - Water		300					
	Per Company - Sewer		1,900					

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
3 OF 11

Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$
5.	The Staff proposes to remove SC Department of Health and Environmental Control's pass-through revenues and expenses from the per book numbers. These fees are not regulated by the Commission. (U & A)							
	Per Staff - Combined		(3,221)		(2,989)			
	Per Staff - Water		(3,221)		(2,989)			
	Per Staff - Sewer		0		0			
	Per Company - Combined		0		0			
	Per Company - Water		0		0			
	Per Company - Sewer		0		0			

6. The Staff and Company propose to annualize direct wages and benefits for South Carolina employees. The Staff used hourly rates as of May 2004 and wages and benefits information as of April 2004 to compute the expenses for employees' health, dental, and retirement benefits. The Company used an anticipated hourly wage and allocated a portion of the expenses to its Lockhart operations. (A)

Per Staff - Combined	46,401
Per Staff - Water	18,924
Per Staff - Sewer	27,477
Per Company - Combined	65,444
Per Company - Water	28,078
Per Company - Sewer	37,366

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
4 OF 11

Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$
7.	The Company proposes to adjust expenses to reflect an increase in purchased water costs. Staff reviewed the adjustment and found that the increase was based on water usage only. No increase in water rates occurred between 2002 and 2003. Therefore, Staff does not propose to make this adjustment since the water usage can fluctuate and is not known and measurable. (A)							
	Per Staff - Combined			0				
	Per Staff - Water			0				
	Per Staff - Sewer			0				
	Per Company - Combined			2,321				
	Per Company - Water			2,321				
	Per Company - Sewer			0				
8.	The Company originally proposed to reflect an increase in purchased power costs for booster stations. However, during the audit, the Company informed Staff that this adjustment should have been eliminated since the booster stations were not purchased. The Staff did not make this adjustment. (A)							
	Per Staff - Combined			0				
	Per Staff - Water			0				
	Per Staff - Sewer			0				
	Per Company - Combined			20,000				
	Per Company - Water			8,000				
	Per Company - Sewer			12,000				

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
5 OF 11

Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$
9.	The Staff and Company propose to remove Contract Operation Expenses. The Company's employees began to perform this work during 2003. The Staff examined invoices and verified the amount removed from expenses. (A)							
	Per Staff - Combined			(43,832)				
	Per Staff - Water			(2,405)				
	Per Staff - Sewer			(41,427)				
	Per Company - Combined			(43,832)				
	Per Company - Water			(2,405)				
	Per Company - Sewer			(41,427)				
10.	The Staff and Company propose to adjust for the increase in insurance premiums for General Liability, Worker's Compensation, Vehicle and Pollution Liability/Environmental Impairment. The Staff's adjustment is based on actual premiums for the period December 23, 2003 through December 23, 2004 allocated to SC. The Company's adjustment is based on estimated premiums for 2004 allocated to its South Carolina operations. (A)							
	Per Staff - Combined						14,165	
	Per Staff - Water						7,190	
	Per Staff - Sewer						6,975	
	Per Company - Combined						22,831	
	Per Company - Water						11,531	
	Per Company - Sewer						11,300	

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
6 OF 11

Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$
11.	The Staff and Company propose to include an allocation of affiliated services for the corporate office located in Baton Rouge, Louisiana and from the parent Company, South Louisiana Electric Cooperative Association (SLECA). This adjustment consists of several components which include the corporate office building expenses, computer services, salaries and wages, etc. The Company includes a coverage charge of 5% and 20% above expenses and allocates expenses to Lockhart. The Staff did not include the coverage charges and annual debt service cost and since the Company has a negative rate base, depreciation expense was disallowed. (A)							
	Per Staff - Combined				34,044	0	1,369	
	Per Staff - Water				17,233	0	693	
	Per Staff - Sewer				16,811	0	676	
	Per Company - Combined				52,565	2,737	1,948	
	Per Company - Water				26,547	1,384	984	
	Per Company - Sewer				26,018	1,353	964	
12.	The Staff and Company propose to adjust for rate case expenses associated with this filing. The Company's computation included estimated expenses of \$120,000 for water and \$120,000 for sewer less per book rate case expenses, amortized over a 3-year period. Staff's adjustment is based on actual expenses to May 2004. The Company's last rate case was filed in 1993, eleven (11) years ago. However, the Staff proposes to amortize the rate case expenses over a more reasonable time period of 5 years. (A)							
	Per Staff - Combined				13,995			
	Per Staff - Water				13,249			
	Per Staff - Sewer				746			
	Per Company - Combined				61,190			
	Per Company - Water				29,795			
	Per Company - Sewer				31,395			

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
7 OF 11

Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$

13. The Staff and Company propose to adjust depreciation expense. The Company proposes to include depreciation expense for the original plant in service based on a cost study and for 2003 plant additions. The Staff used the purchase price and plant additions since the Company was purchased and reduced this amount by tap fees and plant enhancement fees collected by the Company. As a result, the Company has a negative rate base and therefore no depreciation expense is allowed. Staff made an adjustment to remove all depreciation expense from the books for the test year. (A & U)

Per Staff - Combined	(5,821)							
Per Staff - Water	(4,226)							
Per Staff - Sewer	(1,595)							
Per Company - Combined	101,701							
Per Company - Water	38,308							
Per Company - Sewer	63,393							

14. The Staff and Company propose to remove a nonallowable penalty paid to the SC Department of Health & Environmental Control. (A)

Per Staff - Combined	(4,900)							
Per Staff - Water	0							
Per Staff - Sewer	(4,900)							
Per Company - Combined	(4,900)							
Per Company - Water	0							
Per Company - Sewer	(4,900)							

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
8 OF 11

Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$
15.	The Staff proposes to remove expenses which are nonallowable for ratemaking purposes which include penalties, miscoded expenses, and a late payment fee. (A)							
	Per Staff - Combined				(1,088)			
	Per Staff - Water				(1,088)			
	Per Staff - Sewer				0			
	Per Company - Combined				0			
	Per Company - Water				0			
	Per Company - Sewer				0			
16.	The Staff and Company propose to reclassify property taxes that were incorrectly booked to the water system. The adjustment corrects the allocation between water and sewer expenses. (A)							
	Per Staff - Combined						0	
	Per Staff - Water						(2,509)	
	Per Staff - Sewer						2,509	
	Per Company - Combined						0	
	Per Company - Water						(2,509)	
	Per Company - Sewer						2,509	

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

AUDIT EXHIBIT A-1
9 OF 11

Adj. #	Revenue and Expenses Description	(1) Service Revenue	(2) Misc. Income	(3) O & M Expenses	(4) G & A Expenses	(5) Deprec. & Amort. Expenses	(6) Taxes Other Than Income	(7) Interest Expense
		\$	\$	\$	\$	\$	\$	\$
17.	The Staff and Company propose to adjust the gross receipts tax on present revenues. The Company used an assessment rate of .01324 for water and .00696 for sewer and its present revenues. Staff used the most recent PSC assessment rate of .007110428 and its present revenues. (A)							
	Per Staff - Combined						(879)	
	Per Staff - Water						(843)	
	Per Staff - Sewer						(36)	
	Per Company - Combined						331	
	Per Company - Water						126	
	Per Company - Sewer						205	
17	The Company proposes to include Interest Expense as an above-the-line operating expense. The Staff does not consider Interest Expense as an operating expense, but includes Interest Expense, if applicable, when computing the Operating Margin. In this case, the Company has a negative rate base and therefore no Interest Expense is allowed. (A)							
	Per Staff - Combined						0	
	Per Staff - Water						0	
	Per Staff - Sewer						0	
	Per Company - Combined						14,258	
	Per Company - Water						7,129	
	Per Company - Sewer						7,129	
Total Accounting and Pro Forma Adjustments								
	Per Staff - Combined	50,701	(8,821)	(43,832)	99,628	(5,821)	490	0
	Per Staff - Water	37,994	(5,921)	(2,405)	52,519	(4,226)	(2,659)	0
	Per Staff - Sewer	12,707	(2,900)	(41,427)	47,109	(1,595)	3,149	0
	Per Company - Combined	49,126	2,200	(21,511)	197,130	104,438	2,279	14,258
	Per Company - Water	37,148	300	7,916	95,951	39,692	(1,399)	7,129
	Per Company - Sewer	11,978	1,900	(29,427)	101,179	64,746	3,678	7,129

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

Adj. #	Proposed Increase Description	(8) Operating Revenue	(9) Taxes Other Than Income	(10) Income Taxes
		\$	\$	\$
19.	The Staff and Company propose to adjust revenues for the proposed increase. (U)			
	Per Staff - Combined	538,490		
	Per Staff - Water	318,662		
	Per Staff - Sewer	219,828		
	Per Company - Combined	540,065		
	Per Company - Water	319,508		
	Per Company - Sewer	220,557		
20.	The Staff and Company propose to adjust the gross receipts tax as a result of the proposed increase. The Company used an assessment rate of .01324 for water and .00696 for sewer and its proposed increase. Staff used the most recent PSC assessment rate of .007110428 and its proposed increase. (A)			
	Per Staff - Combined		3,829	
	Per Staff - Water		2,266	
	Per Staff - Sewer		1,563	
	Per Company - Combined		5,766	
	Per Company - Water		4,231	
	Per Company - Sewer		1,535	

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED DECEMBER 31, 2002

Adj. #	Proposed Increase Description	(8) Operating Revenue	(9) Taxes Other Than Income	(10) Income Taxes
		\$	\$	\$
21.	The Staff and Company propose to adjust income taxes for the effect of the proposed increase. See Audit Exhibit A-2. (A & U)			
	Per Staff - Combined			149,304
	Per Staff - Water			70,839
	Per Staff - Sewer			78,465
	Per Company - Combined			60,886
	Per Company - Water			32,866
	Per Company - Sewer			28,020
<u>Total Accounting and Pro Forma Adjustments-</u>				
	<u>Effect of the Proposed Increase</u>			
	Per Staff - Combined	538,490	3,829	149,304
	Per Staff - Water	318,662	2,266	70,839
	Per Staff - Sewer	219,828	1,563	78,465
	Per Company - Combined	540,065	5,766	60,886
	Per Company - Water	319,508	4,231	32,866
	Per Company - Sewer	220,557	1,535	28,020

TOTAL ENVIRONMENTAL SOLUTIONS, INC.
COMPUTATION OF INCOME TAXES
TEST YEAR ENDED DECEMBER 31, 2002

	Combined	After Proposed Increase Water	Sewer
	\$	\$	\$
Operating Revenue	791,414	426,929	364,485
Less: Operating Expenses	391,137	237,013	154,124
Net Operating Income Before Taxes	400,277	189,916	210,361
Less: Annualized Interest Expense	0	0	0
Taxable Income - State	400,277	189,916	210,361
State Income Taxes @ 5%	20,014	9,496	10,518
Taxable Income - Federal	380,263	180,420	199,843
Federal Income Taxes @ 34%	129,290	61,343	67,947
Total State and Federal Taxes	149,304	70,839	78,465
Less: Income Taxes as Adjusted	0	0	0
Adjustment	149,304	70,839	78,465

**TOTAL ENVIRONMENTAL SOLUTIONS, INC.
INCOME STATEMENT
WATER & SEWER - PER BOOKS
TEST YEAR ENDED DECEMBER 31, 2002**

OPERATING REVENUES

	\$	
Revenues - Water	76,194	
Revenues - Sewer	<u>134,850</u>	
Total Revenues		<u><u>211,044</u></u>

OPERATING EXPENSES

	\$	
Salaries & Wages, Benefit & Payroll Taxes	47,281	
Sludge Removal	8,805	
Purchased Water	67,168	
Purchased Power	15,905	
Chemicals	4,210	
Materials & Supplies	17,979	
Contract Services - Operations	43,832	
Contract Services - Engineering	2,823	
Contract Services - Legal	40,919	
Contract Services - Testing	3,852	
Contract Services - Other	9,105	
Rental - Equipment	14,046	
Transportation Expense	8,030	
Bad Debts Expense	2,780	
Computer Expenses	974	
Dues & Subscriptions	697	
Office Supplies & Expenses	2,644	
Postage & Shipping	2,459	
Penalties	4,900	
Telecommunications Expenses	2,349	
Rate Case Cost	18,810	
Depreciation Expense	5,821	
PSC Utility Assessment	2,678	
SC DHEC Fee	3,014	
Oconee City Assessment	510	
Property Taxes	<u>5,252</u>	
Total Expenses		<u><u>336,843</u></u>

NET INCOME(125,799)

**TOTAL ENVIRONMENTAL SOLUTIONS, INC.
BALANCE SHEET BY DIVISION (STATE)
TEST YEAR ENDED DECEMBER 31, 2002**

<u>CURRENT ASSETS</u>	\$	\$
Cash	0	
Accounts Receivable	8,049	
Pre-Paid Expenses	<u>975</u>	
<u>Total Current Assets</u>		<u>9,024</u>
<u>UTILITY PLANT ASSETS</u>		
Water and Wastewater Plant in Service	214,264	
Construction Work in Progress	0	
Less: Accumulated Depreciation	<u>(10,501)</u>	
Net Utility Plant Assets		<u>203,763</u>
<u>TOTAL ASSETS</u>		<u><u>212,787</u></u>
<u>LIABILITIES</u>		
Due to Parent Company	<u>541,440</u>	
<u>Total Liabilities</u>		<u>541,440</u>
<u>STOCKHOLDER'S EQUITY (DEFICIT)</u>		
Retained Earnings (Deficit)	<u>(328,653)</u>	
<u>Total Stockholder's Equity</u>		<u>(328,653)</u>
<u>TOTAL LIABILITIES AND OWNER'S EQUITY</u>		<u><u>212,787</u></u>

**REPORT OF THE
UTILITIES DEPARTMENT
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

TOTAL ENVIRONMENTAL SOLUTIONS INC.

IN

OCONEE COUNTY, SC

DOCKET NO. 2004-90-W/S

UTILITIES DEPARTMENT REPORT
TOTAL ENVIRONMENTAL SOLUTIONS, INC.
DOCKET NO. 2004-90-W/S

INDEX

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UTILITIES DEPARTMENT EXHIBIT NO. 1

Total Environmental Solutions, Inc. (TESI) is operating under rates set by Public Service Commission Order No. 97-392 issued on May 12, 1997 in Docket No. 93-670-W/S. The Company currently has 561 water customers and 543 sewer customers. The present and proposed rates are:

PRESENT RATES

WATER

Residential per lot	\$ 18.95 flat rate
Commercial per tap	\$ 30.00 flat rate
RV Sections per RV lot	\$ 8.90 flat rate
Services to multiple condo units	\$ 18.95 per unit
Services to commercial units	\$ 30.00 per tap
Connection fee (new customer)	\$250.00
Disconnect/Reconnect fee	\$ 50.00

SEWER

Residential per lot	\$ 28.95 flat rate
Commercial per tap	\$ 35.00 flat rate
RV Sections per RV lot	\$ 8.90 flat rate
Services to multiple condo units	\$ 28.95 per unit
Services to commercial units	\$ 35.00 per tap
Connection fee (new customer)	\$400.00

SCHEDULE OF PROPOSED RATES AND CHARGES

AVAILABILITY: Available within the Company's service area.

APPLICABILITY: **Residential** rates apply to all lots within the Company's service area upon which either a dwelling or one or more of its appurtenances is permanently affixed or located.

RV rates apply to all RV lots within the Company's service area upon which either a dwelling or one or more of its appurtenances is not permanently affixed or located.

Commercial rates apply to any commercial or master-metered residential customer for any purpose.

Commercial/Condominium applies to any condominium complex within the Company's service area. Commercial customer is provided with a single monthly bill based upon the number of condominium units in the applicable complex multiplied by the applicable per-unit rate set forth below.

WATER:

<u>RATES</u>		<u>MONTHLY</u>
Residential	Per Lot	\$62.55
RV	Per Lot	\$62.55
Commercial	Per TAP	\$99.35
Commercial/ Condominium	Per Unit	\$62.55

NONRECURRING CHARGES:

CONNECTION FEE (New Customer) **\$250.00 per Residential or RV Lot,
Condominium Unit, or SFE***

This charge is to reimburse the Company for all costs, including labor and materials, associated with establishing the initial service connection.

PLANT IMPACT FEE (New Customer) **\$400.00 per Residential or RV Lot,
Condominium Unit, or SFE***

RE-CONNECTION FEE **\$250.00 per Residential or RV Lot,
Condominium Unit, or SFE***

This charge is to reimburse the Company for all costs, including labor and materials, associated with re-establishing service after disconnect for non-payment, failure to make deposit, fraudulent, or seasonal use. Customers who ask to be reconnected within ten months of disconnection will be charged the monthly utility rate for the service period they were disconnected. The Reconnection Fee shall also be due prior to reconnection if water service has been disconnected at the request of the customer.

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a customer is less than one (1). If the equivalency rating of a customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the water system is requested.

ADMINISTRATION FEE**\$45.00**

This charge is to cover the administrative cost of re-establishing service upon a change of customer where service has previously been established.

SERVICE CHARGE**\$20.00 during business hours****\$35.00 after business hours**

This charge is to reimburse the Company for costs associated with sending a company repairman to a consumer's premises at the customer's request when the trouble is found to be in the customer's house piping.

DEPOSIT

Company may require a customer deposit up to the maximum amount allowed by applicable South Carolina Statue and/or South Carolina Public Service Commission Rule.

LATE PENALTY CHARGE

Company may charge a late-payment penalty up to the maximum amount allowed by applicable South Carolina Statue and/or South Carolina Public Service Commission Rule.

NSF CHECK CHARGE

Company may charge an NSF check charge up to the maximum amount allowed by applicable South Carolina Statue and/or South Carolina Public Service Commission Rule.

BILLING OF TENANTS

The Utility will, for the convenience of the owner, bill a tenant. However, all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure to pay for services rendered to a tenant may result in service interruptions.

CONSTRUCTION STANDARDS:

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

EXTENSION OF UTILITY SERVICE LINES AND MAINS

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A (2003 Supp.)

SEWER:**RATES****MONTHLY**

Residential	Per Lot	\$55.66
RV	Per Lot	\$55.66
Commercial	Per TAP	\$67.46
Commercial/Condominium	Per Unit	\$55.66

NONRECURRING CHARGES:**CONNECTION FEE (New Customer)****\$400.00 per Residential or RV Lot,
Condominium Unit, or SFE***

This charge is to reimburse the Company for all costs, including labor and materials, associated with establishing the initial service connection.

PLANT IMPACT FEE (New Customer)**\$400.00 per Residential or RV Lot,
Condominium Unit, or SFE*****RE-CONNECTION FEE****\$400.00 per Residential or RV Lot,
Condominium Unit, or SFE***

This charge is to reimburse the Company for all costs, including labor and materials, associated with re-establishing service after disconnect for non-payment, failure to make deposit, fraudulent, or seasonal use. Customers who ask to be reconnected within ten months of disconnection will be charged the monthly utility rate for the service period they were disconnected. The Reconnection Fee shall also be due prior to reconnection if sewer service has been disconnected at the request of the customer.

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a customer is less than one (1). If the equivalency rating of a customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

ADMINISTRATION FEE**\$45.00**

This charge is to cover the administrative cost of re-establishing service upon a change of customer where service has previously been established.

SERVICE CHARGE**\$20.00 during business hours
\$35.00 after business hours**

This charge is to reimburse the Company for costs associated with sending a company repairman to a consumer's premises at the customer's request when the trouble is found to be in the customer's house piping.

DEPOSIT

Company may require a customer deposit up to the maximum amount allowed by applicable South Carolina Statue and/or South Carolina Public Service Commission Rule.

LATE PENALTY CHARGE

Company may charge a late-payment penalty up to the maximum amount allowed by applicable South Carolina Statue and/or South Carolina Public Service Commission Rule.

NSF CHECK CHARGE

Company may charge an NSF check charge up to the maximum amount allowed by applicable South Carolina Statue and/or South Carolina Public Service Commission Rule.

BILLING OF TENANTS

The Utility will, for the convenience of the owner, bill a tenant. However, all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure to pay for services rendered to a tenant may result in service interruptions.

TOXIC AND PRETREATMENT EFFLUENT GUIDELINES

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §129.4 and §401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §403.5 and §403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

CONSTRUCTION STANDARDS:

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

EXTENSION OF UTILITY SERVICE LINES AND MAINS

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service, unless treatment capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system.

In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities --25 S.C. Code Ann. Regs. 61-67 Appendix A (2003 Supp.)

MISCELLANEOUS CHARGES:

THEFT OF SERVICE

Unauthorized connections or reconnections will be subject to a \$500 Theft of Service Charge. Company may terminate all service until this charge is paid in full. In the event of such termination, service reconnection will also be subject to any applicable tariff charges, including but not limited to Connection Fees.

TAMPERING

Individuals tampering with Company facilities without Company permission will be subject to a \$250 Tampering Charge, in addition to any other applicable tariff charges. If the individual tampering with Company facilities is a Customer, or is doing so on behalf of a Customer, Company may terminate all service to Customer until this charge is paid in full. In the event of such termination, service reconnection will also be subject to any applicable tariff charges, including but not limited to Connection Fees.

UTILITIES DEPARTMENT EXHIBIT NO. 2

Utilities Department Exhibit No. 2 shows the effect of the present and proposed rates and charges on operating revenue. The proposed increase would produce \$538,490 in additional revenue for an overall increase of 215.45%.

EFFECT OF PRESENT AND PROPOSED RATES AND CHARGES ON WATER AND SEWER SERVICE REVENUE FOR PERIOD ENDING **DECEMBER 31, 2003**

Source of Revenue	Current Revenue \$	Proposed Revenue \$	Proposed Increase \$	Percent Increase %
Water Service	105,958	424,620	318,662	300.74
Sewer Service	143,985	363,813	219,828	152.67
Total revenue	249,943	788,433	538,490	215.45

UTILITIES DEPARTMENT EXHIBIT NO. 3

Utilities Department Exhibit No. 3 shows the effect of the proposed rates and charges on the customer's monthly flat rate bill

EFFECT OF PROPOSED INCREASE ON MONTHLY BILL

Type Of Service	Present Bill \$	Proposed Bill \$	Amount of Increase \$	Percent Increase %
Water				
Residential	18.95	62.55	43.60	230.08
RV	8.90	62.55	53.65	602.81
Commercial	30.00	99.35	69.35	231.17
Sewer				
Residential	28.95	55.66	26.71	146.78
RV	8.90	55.66	46.76	525.39
Commercial	35.00	67.46	32.46	92.74
Combined				
Residential	47.90	118.21	70.31	146.78
RV	17.80	118.21	100.41	564.10
Commercial	65.00	166.81	101.81	156.63

UTILITIES DEPARTMENT EXHIBIT NO. 4

UTILITIES DEPARTMENT REVIEW OF SERVICE PROVIDED BY THE COMPANY

On May 17, 2004 personnel from the Public Service Commission of South Carolina audited the Company's books and operations in preparation for the rate case. The Company has 561 water and 543 sewer customers, in Oconee County, South Carolina. The Consumers Services Department has not received any complaints regarding the Company. The Department has received 3 inquiries concerning the enhancement fees and 1 inquiry concerning rates.

Since the Notice of Filing was mailed to the Company's customers, Staff has received 2 Petitions to intervene and 51 letters of protest.

The following 3 pages are a summary of the Business Office Compliance Review Report and a field inspection of the WWTP. On July 21, 2004 Staff visited the subdivision to inspect the WWTP and check for compliance with the Commission Rules and Regulations. The Company purchases all of its water from Westminster Commission of Public Works. TESI performs no treatment on the water, does not have customer meters nor provide fire service protection.

The Company provides adequate water and sewer service to its customers.

BUSINESS OFFICE COMPLIANCE REVIEW REPORT

UTILITY: Total Environmental Solutions, Inc. INSPECTOR: W. Richardson

OFFICE: 2299 Dr. Johns Road Westminster, SC 29693 DATE: July 21, 2004

COMPANY REPRESENTATIVE: Ms. Patsy Land

IN COMPLIANCE

YES OR NO*

- yes 1. Are all records and reports available for examination in accordance with R.103-710 and R.103-510?
- yes 2. Are complaint records maintained in accordance with R.103-716 and R.103-516?
- yes 3. Are the utility's rates, its rules and regulations and its up-to-date maps and plans available for public inspection in accordance with R.103-730 and R.103-530?
- yes 4. Are procedures established to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-730 and R.103-530?
- n/a 5. Are deposits charged within the limits established by R.103-731 and R.103-531?
- yes 6. Are timely and accurate bills being rendered to customers in accordance with R.103-733 and R.103-532?
- yes 7. Are bill forms in accordance with R.103-732 and R.103-532?
- yes 8. Are adjustments of bills handled in accordance with R.103-733 and R.103-533?
- yes 9. Is the policy for customer denial or discontinuance of service in accordance with R.103-735 and R.103-535?
- yes 10. Are notices sent to customers prior to termination in accordance with R.103-735 and R.103-535?
- yes 11. Are notices filed with the Commission of any violation of PSC or DHEC rules which effect service provided to its customers in accordance with R.103-714-C and R.103-514-C?

Business Office Compliance Review Report (page 2)

- yes 12. Does the utility have adequate means (Telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in cases of emergency or unscheduled interruptions or service in accordance with R.103-730 and R.103-530?
- yes 13. Are records kept of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-714 and R.103-514?
- yes 14. Has the utility advised the Commission, in accordance with R.103-712 and R.103-512 of the name, title, address and telephone number of the person who should be contacted in connection with:
- (a) General management duties?
 - (b) Customer relations (complaints)?
 - (c) Engineering operations?
 - (d) Meter tests and repairs?
 - (e) Emergencies during non-office hours?
- yes 15. Has the Company verified the maps on file with the Commission include all the service area of the Company?
- 543 s 16. Number of customers the Company has at present. 561 w
- yes 17. Does the Company have a current performance bond on file with the Commission?
Amount of bond \$100,000 water and \$100,000 sewer

*A "NO" RESPONSE REQUIRES A NOTE IN THE COMMENT SECTION

COMMENTS: 5- the Company does not charge deposits.

SEWERAGE SYSTEM INSPECTION

UTILITY: Total Environmental Solutions, Inc. NO. OF CUSTOMERS: 543

SYSTEM: Foxwood Hills S/D DATE INSPECTED: 07-21-04

INSPECTED BY: William Richardson CO. REPRESENTATIVE: Patsy Land

TYPE OF PLANT: MECHANICAL x LAGOON

EXTENT OF TREATMENT: PRIMARY SECONDARY x TERTIARY

CHLORINATOR YES x NO

OTHER CHEMICALS IN USE YES x NO

AERATORS YES x NO

PLANT FENCED & LOCKED YES x NO

WARNING SIGNS VISIBLE YES x NO

HOLES IN FENCE YES NO x

EROSION OF DIKES YES NO n/a

ODOR YES NO x

GRASS CUT YES x NO

DUCK WEED OR ALGAE YES NO n/a

GREASE BUILD-UP YES NO x

DEBRIS INSIDE PLANT YES NO x

COLOR OF EFFLUENT Clear

LIFT STATIONS YES x NO NUMBER 13

FAILURE WARNING SYSTEM YES x NO

ELECTRIC WIRING (ACCEPTABLE) YES x NO

OVERFLOWS YES NO n/a

CONDITION OF ACCESS ROAD GOOD x BAD

NEW CONSTRUCTION YES x NO

HOUSES YES x NO

UTILITY YES NO x

FREQUENCY CHECKED BY OPERATOR 7 days per week

LOCATION OF UTILITY OFFICE 2299 Dr. Johns Road, Westminster, SC 29693

LOCATION OF SYSTEM Oconee County

IS SUBDIVISION PROVIDED WATER BY THIS UTILITY? YES x NO

BY WHOM?

COMMENTS:

UTILITIES DEPARTMENT
EXHIBIT NO. 5

Total Environmental Solutions, Inc.
Alternate Revenue Requirements
Test Year Ended December 31, 2002

		Revenue Required After Increase \$	water bills = 6636 res & 96 com sewer bills = 6420 res & 96 com			
			residential	commercial	residential monthly charge	commercial monthly charge
Operating Margin @ 0.00%	water	207,510	202,849	4,661	\$ 30.57	\$ 48.55
	sewer	177,793	174,628	3,165	\$ 27.20	\$ 32.97
	Combined	385,303				
Operating Margin @ 5.00%	water	221,399	216,426	4,973	\$ 32.61	\$ 51.80
	sewer	189,694	186,317	3,377	\$ 29.02	\$ 35.17
	total	411,093				
Operating Margin @ 10.00%	water	237,502	232,168	5,334	\$ 34.99	\$ 55.57
	sewer	203,491	199,869	3,622	\$ 31.13	\$ 37.73
	total	440,993				
Operating Margin @ 15.00%	water	260,472	254,622	5,850	\$ 38.37	\$ 60.94
	sewer	223,171	219,198	3,973	\$ 34.14	\$ 41.38
	total	483,643				
Operating Margin @ 20.00%	water	294,886	288,263	6,623	\$ 43.44	\$ 68.99
	sewer	252,657	248,160	4,497	\$ 38.65	\$ 46.85
	total	547,543				
Operating Margin @ 25.00%	water	340,394	332,749	7,645	\$ 50.14	\$ 79.64
	sewer	291,649	286,458	5,191	\$ 44.62	\$ 54.08
	total	632,043				
Operating Margin @ 30.00%	water	402,033	393,003	9,030	\$ 59.22	\$ 94.06
	sewer	344,460	338,328	6,132	\$ 52.70	\$ 63.87
	total	746,493				
Operating Margin @ 31.71% Proposed Increase	water	424,620	415,083	9,537	\$ 62.55	\$ 99.35
	sewer	363,813	357,337	6,476	\$ 55.66	\$ 67.46
	total	788,433				